Michigan Bankers Association

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Mr. Barry F. Murdock
Deputy Director
Office of Regulatory Policy
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090

RE: RIN 3052-AC84 – Funding and Fiscal Affairs, Loan Policies and Operations, and Funding Operations, Investment Eligibility – Federal Register Number 2014-17493 (July 25, 2014).

Dear Mr. Murdock:

The Michigan Bankers Association has concerns with the proposed rule to amend regulations governing the eligibility of investments held by Farm Credit Banks and Farm Credit Associations. The Michigan Bankers Association (MBA) represents the savings institutions chartered by state and federal agencies and has operations in every portion of the state of Michigan.

The above referenced proposed rule newly issued by the Farm Credit Administration seeks to significantly expand investments held by Farm Credit Banks and Farm Credit Associations. The new rule is written as a response required by 939A of the Dodd-Frank Act. Section 939A was included to strengthen the risk management of institutions. Prior to the Dodd-Frank Act it was found that financial institutions had become overly reliant upon credit rating agency systems and were ignoring the underlying quality of asset or collateral support to the loan. Section 939A requires agencies to review regulations that utilize credit ratings and substitute other appropriate standards for review. This was a good idea. The MBA continually educates our membership on the correct methods to underwrite investments for quality and problem avoidance. However the proposed rule does not do that requires by Section 939A. The proposal rewrites investment eligibility for Farm Credit System institutions. This provision was written to remove potential risky behaviors from financial institutions by doing away with kneejerk overreliance upon credit ratings that understated or unanticipated certain risks. The rule as proposed expands the types of risks the Farm Credit System may pursue.

This proposed rule is a seemingly pre-approval of local decision making in a concealed process of oversight of "other" assets. The rule appears to allow regulatory pre-approval without regulatory oversight and approval. This investment expansion and the construction of this risk accumulation is a proposal that is proceeding without the express authorization from Congress. The Farm Credit Administration in this rule is free to self-determine investments beyond what law has specifically restricted. All this might be an attempt to reduce system risk and concentrations for protection of the Farm Credit System. But it is not a correction of credit risk weighting process required by Dodd-Frank. It is something much greater. This is over reach by subterfuge. The MBA requests a robust discussion in Congress of this expansion. We believe that the additional risk, backstopped by the US taxpayer, should be considered and the benefits weighted prior to implementation. Dodd-Frank attempted to remove risks and taxpayer obligations and should not be used to enhance taxpayer future liability for expanded government subsidized lending operations.

The Farm Credit Administration should withdraw the proposed rule and replace with a rule the responds to the requirements of Dodd-Frank Act 939A. Concerns the Farm Credit Administration wishes to address on asset expansion and regulatory approvals of asset investments should be determined by adjusting and amending the corresponding law the developed the Farm Credit Banking System. The restrictions on this system were debated and placed to assure the risk of the system was commensurate with the United States policy and tax payer obligation. Risk concentrations and risk weighting problems of these restrictions are indeed issues of concern and certainly robust discussion will clarify the nature of the systemic risk of government sponsored and tax-payer subsidization of discriminate lending and asset purchases.

Respectfully,

John T. Llewellyn

John T. Llewellyn
Vice President – Government Relations